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THE INDIAN GOLD ABSORPTION

So much has been written concerning the increasing production of gold that it is a relief to turn from a consideration of that subject to the question of an increase in the actual consumption of the precious metal. In investigating the Indian gold absorption, the reader would do well to dismiss from his mind much that has been written in India and Europe regarding the British management of Indian finance and currency. The controversy concerning the latter question has been so acute that the relevant facts have been obscured by racial animosity on the one hand and political bias on the other. This is to be regretted, since the effect on prices in Europe and America consequent upon the satisfaction of India's demand for gold has been used merely as a peg upon which to hang acrimonious criticism rather than as the basis for a logical argument on the matter. However, the object of this article is not to enter into a discussion upon the merits and demerits of the various opinions expressed, but to lay before the reader a plain statement of facts concerning the Indian consumption of gold and its possible effect on the world's markets.

The total production of gold during the past eleven years has been approximately \$4,459,514,962, and although it is not possible to trace definitely and fully all of the new product to its destination, yet it is reasonably certain that the gold has been distributed among the world's markets somewhat in the following proportions:

United States of America	\$ 792,747,335
Canada	99,093,417
South America	396,373,667
India	495,467,082
Absorbed by the Bank of England and other banks of issue in Europe	941,554,848
Absorbed by Australian and South African banks	109,000,336
Absorbed by other banks, plus amounts in circulation and private holdings	599,516,508
Absorbed by the arts and manufactures	1,025,811,769
	<hr/>
	\$4,459,564,962

From this table we see that India has taken 495 million dollars, or about one-ninth of the total gold production of the world. If the present rate of absorption lasts, it is possible that a still larger proportion will be taken during the next five years.

It is this aspect of the question which the English financiers and bankers do not like to contemplate. The United Kingdom during 1858-1910, a period of fifty-three years, imported \$963,160,000 more of gold bullion and specie than it exported, that is, an excess of about \$19,000,000 a year, which excess one authority, H. V. Gibson, estimates to have been absorbed by four channels: increased bank gold reserves, increased currency requirements, jewelry, and increased use in the arts and manufactures.

As a matter of fact, during eleven years the annual average reserve of the Bank of England has only increased by about \$30,000,000, which seems to indicate that Great Britain has not been able to retain the proportion of the gold output to which its position as the one free gold market in the world appears to entitle it. The Indian drain of gold is the cause of this shortage.

India has, of course, been a constant user of bar gold for many years past, and it was only comparatively recently that figures took an upward turn; in 1901-2, for instance, she exported \$2,598,950 more gold bullion than she imported, but during the five years 1907-12, her imports exceeded exports by \$122,656,685.¹ A proportion of this gold has probably gone to supply a definite domestic need, but the greater part has no doubt been utilized to swell the hoards of the various native potentates of which we hear so much from time to time.

The gold bullion imported is presumably determined by the demand, but a comparison of the various amounts of gold India imported and exported last year, rather inclines me to the view that figures for gold bullion will not materially advance. From January to December, 1912, \$35,721,915 in bullion (bars, ingots, and other uncoined gold) was retained in India, but investigations now show that allowance must in future be made for the proportion of gold which it is found can be supplied from the stock of sovereigns, since for certain purposes the sovereign is of greater utility to the native jewelers than the small five- and ten-ounce gold bars formerly in

¹ Taking \$5 to £1.

vogue. When a small quantity of gold is required, a full-weight sovereign is said to answer the jeweler's purpose: he knows its exact weight, fineness, and value and has no difficulty in obtaining the coins; added to which, the sovereign is slightly cheaper in districts off the beaten track.

It is, then, in the total absorption of sovereigns that we must henceforth expect to find the greater increase, and before reviewing the various figures, it may be well to indicate the manner in which sovereigns are remitted to India.

In the first place we shall avoid confusion if we differentiate between the types of coin remitted, as in the one case shipments represent exchange operations and in the other the supplying of a definite article for which there is a genuine industrial demand. In the latter case I refer to "shield" sovereigns, a type of coin bearing the Victorian effigy on the obverse and a shield on the reverse. These sovereigns are greatly in request by the Indian natives, who require them for ornamental use, but the English sovereigns with St. George killing the dragon, on the reverse, are not receivable, because the native's beliefs preclude his melting such coins. He imagines the dragon to be a sacred animal, and solemnly avers that St. George could not have killed it; therefore he will have nothing to do with a coin illustrating the famous British legend.

The value placed upon shield sovereigns and half-sovereigns is merely a sentimental one, and as these coins never return into circulation, and no more are being minted, we regard the trade in England as a dying industry. The mere fact of their being in special demand for ornaments has caused a premium to be placed upon them—at the time of writing the London price shows a premium for every one hundred sovereigns of £3 to £3 5s., according to quantity offered, and it is becoming increasingly difficult to obtain the coins even at that price.

Other types of coin commanding a premium in London for shipment to India are the "Bunhead" and "Jubilee" sovereigns. The former are so called because the head of Queen Victoria appears on the obverse with the hair dressed in the shape of a bun, while the latter were the coins specially struck to commemorate the Queen's jubilee.

The statements compiled by the government of India do not

distinguish between the different types of sovereigns imported, but it was estimated some years ago that the import of shield sovereigns into Bombay alone was \$2,000,000 a year, and, judging from the present demand, there is every prospect of the whole amount which was originally minted finding its way to India.

Apart from these ornamental coins, it may be taken as certain that the great bulk, if not all, of the sovereigns which leave England for India are passed through the government currency offices. Consequently we must briefly consider why they are offered to the government and how they are remitted from England.

In London we have a number of merchants, bankers, and financiers desirous of making remittances to India from time to time, while the Indian government in turn is under the necessity of making large payments in England in sterling for its purchases of bar silver, interest on loans, pensions due, and services rendered. The former require rupees in India to pay for produce imported into London, and the latter requires sovereigns for disbursements in London. To meet the convenience of both parties it has become the custom for the secretary of state for India to make weekly sales of drafts and telegraphic transfers. Tenders are invited through the medium of the Bank of England for either class of remittance in lacs of rupees—a lac being equal to 100,000 rupees; and both bills and transfers are issued on three centers, Bombay, Calcutta, and Madras, each tenderer specifying at which place he desires to receive rupees. If immediate settlement of indebtedness is desired, cable transfers will be applied for, but if a remittance by mail will satisfy the Indian creditor, drafts will be tendered for, and in the latter case, as the India Council has the use of the sovereign equivalent in London for two or three weeks before the rupees are paid over in India, a lower rate will be paid for drafts than for transfers.

This selling of rupees to the highest bidder does not go on indefinitely. It sometimes happens that there is no hurry for the gold needed to meet the sterling engagements of the Indian government in London, in which case allotments of drafts will not be made below a certain figure, say 1s. 4 $\frac{1}{8}$ d., and the would-be remitters are led to look elsewhere for a cheaper form of remittance.

As is well known, there are only two ways of procuring rupees

from the government in India: a banker or merchant may present Council drafts purchased in England at varying rates per rupee, or he may tender sovereigns in exchange for rupees at the fixed rate of 1s. 4d. There is, it should be noted, a legal obligation to issue rupees in exchange for sovereigns in India at the rate of 15 rupees for one sovereign, and under Section 11 of the Indian Paper Currency Act of 1910, currency notes are also issued at the same rate in exchange for sovereigns. The problem therefore resolves itself into a comparison between the price asked for India Council drafts in London and the laying-down¹ cost of sovereigns in India.

Eastern banks and exchange houses will buy the bills so long as their cost does not exceed that of shipping sovereigns to India, but directly the price of Council bills goes beyond that point, they cease to be salable to the large buyers except in unusual circumstances, and it will then be a more profitable operation to send sovereigns direct to India to be exchanged for rupees.

Sovereigns are not always shipped direct from England; a large number are available every year in Egypt, to which place they have previously been sent for the purpose of financing the autumn cotton crop. Prior to the closing of the Indian mints to the free coinage of silver in 1893, these coins used to be reshipped to England, but now they tend to remain in Egypt pending offers from India through the exchange banks in London. Approximately 5½ million sovereigns left Egypt for India in 1911.

The Australian product is also freely taken by India, about 8¼ million sovereigns being obtained from Australia during the same year.

Different conditions, however, govern supply and demand in each country. The amount in Egypt is dependent upon the quantity she has previously imported from London, and this importation is again governed by the prospects of a good or bad cotton harvest; while Australia not only produces her own gold but also coins the sovereigns in her own mints.

The supply available for export from Australia depends upon the exigencies of the wool season: if the sheep farmers are successful, a large quantity of wool will be on offer, and the sovereigns will

¹ The "laying-down" cost means the net price of the sovereigns plus all shipping charges, insurance, interest allowances, etc.

be required to finance the export trade; but with a dry season and the resulting hardships from the drought, the Australian demand for gold will be poor, and more sovereigns will consequently be available for India.

As far as the banks are concerned the business may be regarded simply as an exchange operation. Australian and Egyptian banks have branches in London, and at certain periods these offices need funds for current business in England. If, therefore, the foreign branch has more money than it can profitably use, it is comparatively easy to contract for shipments of sovereigns to India from Australia or Egypt in return for payment in London by the Eastern banks; due regard in each instance being paid to the laying-down cost of these funds and the necessity for receiving them in London the moment the Australian and Egyptian banks find themselves under the necessity of undertaking financial operations in England.

Apart from the sovereigns which have a sentimental value, the Indian imports also represent exchange operations, since the comparison the Indian banker makes is that between the cost of Council remittances and the cost of laying down the gold in India, but there is this difference. On arrival in India the sovereigns are not retained by the banks: they are immediately deposited with the government currency offices and notes are drawn out in exchange. When the banks need currency the notes are returned, the form in which currency is drawn out depending on the native requirements at the time.

Correctly speaking, one may say that sovereigns are imported for the express purpose of obtaining currency, but it must be remembered that the amounts imported are governed by other and more varied considerations. The coins are not necessarily sent to India for use as a circulating medium, but are found to go into that country when they happen to be the cheapest form of remitting funds, and although the exact use of a large number of the sovereigns can be accurately ascertained, yet to a certain extent the figures indicate nothing more than the general conditions of the foreign exchanges, say between Australia and London, Egypt and London, and India and London.

The fact that a large number of "dragon" sovereigns are imported into India, notwithstanding the embargo placed upon

them by the natives, goes to prove this contention, for the coins rarely find their way into circulation there. As a rule, they are tendered to the government by the importing banks to be exchanged for rupees, and this type of sovereign may be said to form no inconsiderable part of the gold held in the gold standard and paper currency reserves in India.

As I have shown, there are few data to indicate the exact quantities of the different classes of coin imported and exported, but some idea of the magnitude of the Indian gold imports and of the ultimate disposal of sovereigns will be gained from the fact that from 1902-3 to 1911-12 sovereigns to the amount of £80,160,090 were imported and £21,265,560 exported, giving a net import of £58,894,530.

As explaining the exports of sovereigns, it should be noted that over 17 millions of sovereigns were exported during 1903-7; since that period exports have been trifling. The total exports have been partly consignments of light sovereigns to be exchanged at the Bank of England for value, partly remittances to pay for silver required for coinage when the stock of rupees in the paper currency reserve was becoming unduly low, and partly transfers from the portion of the paper currency reserve held in India to the portion held in England, which were made in order to provide means for supporting exchange when occasion should arise.

Imports and exports of gold coin other than British are insignificant, the figures for the period in question being £1,872,666 and £305,902 respectively.

Taking 1911 as a fair average year, I find that the net imports of British gold coin were £13,937,072. Of these £6,072,000 were retained in the hands of the government and £7,865,072 passed into the hands of the public. To carry the investigation still further, the approximate amounts retained in the hands of the government, and passed into the hands of the public during the period from January 1, 1900, to December 31, 1911, were £5,817,000 and £37,329,000 respectively.

In the figures supplied by the currency offices and those obtainable from the trade statistics for 1911-12, there is a difference of £1,289,000, which may be taken to represent the approximate import of shield sovereigns for that year.

The figures for bullion (bars, ingots, and other uncoined gold) for the period 1902-3 to 1911-12 are interesting by way of comparison. The total imports were £63,813,582 and exports £22,521,842, leaving a net import of £41,291,740.

The statistics for 1912 are particularly instructive, and I have taken out the figures separately. For the twelve months January to December, 1912, there was a net import of £20,292,616 of sovereigns and other British gold coins as against £7,144,383 of gold bullion. The net import of gold bullion for the period 1911-12 showed a decrease of £850,909 as compared with 1910-11.

There is no doubt that a considerable number of sovereigns have merely replaced rupees in the hoards in India; but, as the Comptroller of Currency succinctly remarks, no real information can be obtained from statistics as to hoarding until the country is "saturated" with gold, using the word in its technical sense. However, as regards the gold actually doing money's work, we may safely take the receipts of sovereigns in the treasuries, post-offices, and railways as indicating the extent to which the coins are entering into the daily transactions of the Indian people. The returns show:

	Post-Offices	Treasuries	Railways
1907-8	£1,358,000	£4,409,000	£1,045,000
1908-9	1,001,000	2,748,000	710,000
1909-10	265,000	945,000	134,000
1910-11	638,000	3,177,000	597,000
1911-12	1,363,000	5,626,000	1,222,000

These figures do not, of course, account for anything like the total quantity imported, but they are reliable evidence of the fact that the use of the sovereign as a currency medium must be steadily increasing. As a matter of fact, it is found that the coin is regularly used in northern India, Bombay, and part of Madras, but that in other parts of India its main use is for conversion into ornaments or jewelry; and the view the authorities take is that once the sovereign comes to be used in the jute and rice trades, as it is already used for the wheat and cotton, its circulation will be increased enormously. Everything thus points to the possibility of the steady increase in the Indian gold absorption.

The importation of sovereigns into India during the last few years is partly due to the Indian demand for the coins, but it is in a larger measure due to heavy surplus exports of Indian produce, viz., rice, jute, wheat, etc. One reason why India exports more than she imports is that she has annually to find some eighty million dollars for her Home Charges payable in England, and this liability is met, not by exporting gold, but by exporting produce. The financing of these exports is almost exclusively in the hands of the exchange banks, which, in point of fact, are the same banks which have financed the Indian imports; and the money used to buy the exporters' bills is for the most part that obtained by the encashment of drafts on Indian importers plus the difference necessary to make up the amount by which India's exports exceed her imports. The exporters' bills are remitted home by the banks to their London branches, and in due course are collected from the drawees in England; but, since advances against bills remitted rarely exceed 75 to 80 per cent of the real value, the amount received is considerably more than the banks have paid out; consequently, as the London offices of these banks are under the necessity of remitting the amount back to India, the difference is made up by purchasing the Council bills and transfers which the secretary of state sells in order to obtain the amount for meeting his Home Charges.

As is well known, however, Council drafts in the past have been sold considerably in excess of this amount (\$80,000,000) and these serve for the counter-remittances to India needed by the banks, unless, as I have explained, circumstances arise to prevent the sending of Council remittances, in which case the alternative is for the banks to ship gold, i.e., sovereigns.

It remains for us to consider the effect on prices occasioned by this Indian drain of gold.

There can, I think, be no question that India has benefited by the new order of things. The economic condition of the people is certainly far in advance of what it was ten years ago. By reason of the high prices hitherto received for her exports, India is in a correspondingly prosperous condition and the burden of taxation has therefore not pressed too heavily on the people. We do not find that prices in India have materially risen; but will this state of affairs continue? I think not.

Briefly stated, the position is this. Prices in Europe have risen owing to the large increase of money and credit consequent upon the vast output of the world's gold; moderately priced Indian commodities have poured into Europe, and probably into America also, to take advantage of these high prices ruling, the net result being a large increase of Indian exports on the one hand and a corresponding increase in European imports on the other. Taking this in conjunction with the other causes which make for an increase in prices, the natural sequence of events would appear to be that, as soon as gold payments are made for the commodities, there should be an eventual fall in prices in England, the importing country, due to the diminution in the money or credit supply; and the transference of the gold to the exporting country ought soon to cause a rise in prices there, since the trend of prices in one country is always reflected in those of other countries with which she is intimately connected by commerce.

It is undoubtedly the case that with two countries like India and England the ultimate result should be toward an equalization of prices in both countries, and the absorption of gold by India really does go a little way toward removing the adverse effect on prices caused by the uneven distribution of gold; but the rock on which most theories have split in the case of India is summed up in the magic word "hoards." That an enormous amount of gold does still go into the Indian hoards is unquestionable, and so long as that state of affairs continues, it cannot be said that India is using her proportion of the world's gold for doing money's work; consequently, the economic factors governing the commerce of countries and price movements are hardly applicable. Whether or not these hoards of gold will ever be relinquished is a moot point, yet there is little doubt that, but for the steady inflow of gold into the native hoards, the evils of rising prices in Europe and America might have been very much more acute.

Personally, I believe that if the output of gold continues to increase, we may be glad of the Indian demand; but since the time when de Launay estimated that we might for at least thirty years look for an output of gold higher than, or at least comparable with, that of the last few years, events have moved with startling rapidity.

Following the trouble in the Balkans, Germany has materially strengthened her gold reserves and war chest, and France has acted similarly, while other European countries are walking warily in the matter. In fact, it is not too much to say that all gold-using countries are now keenly alive to the necessity of strengthening and preserving their reserves of gold. The United States, it is to be presumed, has given due weight to the question, since during the summer of this year offers were made to ship gold to London should the prevailing monetary stringency have necessitated such a step; but fortunately the gold was not taken from America. These facts lead one to conclude that the world's gold is now becoming absorbed more rapidly than was estimated.

Taking the present European absorption with the continued Indian demand, in what position is the United States? In 1907-8, during the serious financial crisis in the States, Europe was in a position to send gold to New York, which to some extent relieved the panic there, but if in similar circumstances America again required a large quantity, it is extremely doubtful whether a sufficient supply would be forthcoming in the near future. The Bank of England will probably seek to retain a larger share of gold than hitherto, and there is little use in looking to other European countries for an adequate supply. It is to be hoped, therefore, that the American banking and financial communities realize the position, and that they, in common with their European confrères, will act cautiously until such times as the Balkan imbroglio is at an end.

Finally, the consummation devoutly to be hoped for is that the future destinies of Indian finance and currency may be shaped in such a way as to permit of a regular Indian efflux as well as influx of gold.

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